



# TOWARD FAIR COMPENSATION IN GLOBAL SUPPLY CHAINS:

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FACTORY PAY ASSESSMENTS IN 21 COUNTRIES

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FAIR LABOR  
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## FLA WORKPLACE CODE OF CONDUCT ON COMPENSATION:

“Every worker has a right to compensation for a regular work week that is sufficient to meet the worker’s basic needs and provide some discretionary income. Employers shall pay at least the minimum wage or the appropriate prevailing wage, whichever is higher, comply with all legal requirements on wages, and provide any fringe benefits required by law or contract. Where compensation does not meet workers’ basic needs and provide some discretionary income, each employer shall work with the FLA to take appropriate actions that seek to progressively realize a level of compensation that does.”

## EXECUTIVE SUMMARY

“Every worker has a right to compensation for a regular work week that is sufficient to meet the worker’s basic needs and provide some discretionary income.”

The compensation element of the FLA’s Workplace Code of Conduct — agreed to by all FLA affiliates — begins with this affirmation of workers’ right to fair compensation. In pursuit of progressive realization of this standard, the Fair Labor Association (FLA) and its stakeholders — buyers, suppliers, labor rights organizations, and universities — are part of a global effort to improve compensation for workers in global supply chains.

As a contribution to this effort, the FLA presents here a first-of-its-kind report that details worker compensation data collected by the FLA in 2015 in mainly apparel and footwear factories.<sup>1</sup> This data set is compared with legal minimum wages, World Bank poverty levels, and cost-of-living figures to present actual compensation figures in the context of national-level debates over pay, and to determine where the purchasing power of workers’ compensation is weakest and strongest.

This report is an important first step in the FLA’s larger Fair Compensation strategy to help buyers and suppliers set priorities for their efforts to generate measurable and sustainable progress towards compensation that meets the FLA Workplace Code of Conduct standard.

This report does not prescribe specific solutions, and its conclusions are limited by the amount of data available from one year of FLA assessments in 124 factories and 21 countries.<sup>2</sup> Given the lack of reliable and widely available compensation data for factory workers, the data presented in this report provide important references for stakeholders to help understand compensation issues in global supply chains. The analysis in this report suggests three key lessons that will help direct the FLA and its stakeholders in determining the next steps toward fair compensation:

<sup>1</sup> The FLA will publish data on compensation in agricultural supply chains separately.

<sup>2</sup> These 21 countries represent around 80 percent of the supply chain footprint of FLA-affiliated companies participating in the FLA’s factory monitoring program. This baseline data and analysis are confined within the distribution of assessments conducted by the FLA.

1. **Legal pay violations continue.** FLA factory assessors found that while legal pay requirements were respected in approximately two-thirds of suppliers assessed by the FLA, pay violations occurred in the remaining one-third of suppliers. Overtime pay violations were found in more than 20 percent of factories assessed in 2015. The frequency of minimum wage violations has been falling over the past five years, but six percent of factories assessed in 2015 were found to be violating minimum wage laws.
2. **FLA compensation data indicate where average worker compensation buys the least.**<sup>3</sup>  
The FLA found that for factories assessed in Bangladesh the purchasing power of average compensation — a measure that includes base pay, and some benefits and incentives, but excludes overtime — fell below the World Bank poverty line. While above the poverty line, purchasing power of compensation remains relatively weak for factories assessed in Cambodia, the Dominican Republic, India, Sri Lanka, and the Philippines, and for migrant workers in Jordan — where the legal minimum wage is set lower than the legal minimum for local workers. In these countries, workers may be least likely to earn enough to meet the FLA Code of Conduct standard of “basic needs and ... some discretionary income.” Purchasing power of average compensation was found to be around 2.5 times the poverty line in factories assessed in China and Vietnam — two giants of apparel and footwear production — and was found to be highest in Turkey, Taiwan, and the U.S. (See the chart on page 16 for all countries.)
3. **Legal minimum wages appear to be a primary factor in determining factory compensation levels.** In half of all factories assessed and in two-thirds of countries covered in this report, average compensation hovers near the legal minimum, with workers earning between one and 1.5 times the minimum wage. Average compensation in the other half of factories assessed was more variable – falling mostly between 1.5 and 3.75 times the legal minimum.

Average compensation that is anchored to minimum wages has a negative impact on workers where the purchasing power of minimum wages is weakest — Bangladesh, Cambodia, the Dominican Republic, India, and the Philippines. In these countries, there is an important opportunity for active engagement between brands, suppliers, national policy-makers, unions, and others to advance fair and inclusive minimum-wage setting, and to support the building of effective frameworks for industry bargaining.<sup>4</sup>

These lessons may seem obvious to some. For others, some of the FLA’s baseline data may seem too sparse to yield conclusive results. But the collection and analysis in this report of actual and sector-specific compensation figures begins to fill a critical and long-standing data gap in the global debate over supply chain pay, ranks countries according to the purchasing power of compensation, and looks ahead to approaches that may enable real progress towards fair compensation.

<sup>3</sup> These compensation figures are converted to Purchasing Power Parity dollars (PPP\$), a World Bank standard that allows the purchasing power of incomes to be compared across countries and currencies by representing “the number of units of a country’s currency required to buy the same amounts of goods and services in the domestic market as U.S. dollar would buy in the United States.” <http://data.worldbank.org/indicator/PA.NUS.PPP>

<sup>4</sup> See <http://www.industrial-union.org/industry-bargaining-for-living-wages>

## INTRODUCTION

As in many parts of the world, labor's share of income in developing countries — where much of the world's consumer goods are produced — has declined steadily over the last twenty years.<sup>5</sup> This decline has helped to drive advocacy for fair compensation and workers' well-being in global supply chains, and to amplify calls to move beyond minimum wages and prevailing wages where they fail to meet basic needs and provide some discretionary income. The Fair Compensation strategy adopted by the FLA in 2015 addresses these realities, and challenges companies to treat the compensation issue as a critical business problem to be solved, rather than solely a compliance issue to be addressed.

The Organization for Economic Cooperation and Development (OECD) 2016 working paper on living wages frames the issue this way:

In recent years the responsibilities under internationally recognized standards have been clarified for supply chain responsibility vis-à-vis wages [and since] 2011, the UN Guiding Principles for Human Rights and Business and the OECD Guidelines for Multinational Enterprises both address living wages...

Let's not be naïve. This is a very difficult issue to tackle for companies and their supply chains. However, in order to reach the Sustainable Development Goals and for companies to fulfill their corporate responsibility, enterprises should dramatically scale up and speed up their good practices towards living wages in global supply chains.<sup>6</sup>

IndustriALL, the global union federation, builds on this recognition and emphasizes the importance of industry-side approaches:

Why should garment workers endure poor wages and working conditions when they are contributing to the phenomenal profits of global brands?

Any change in the global garment industry has to be systemic and enforceable... [and it] is collaborations between brands and trade unions, like the Bangladesh Accord, that have the best chance of success and instigating real change... The [IndustriALL/ACT] goal is to introduce wage negotiations in garment supply countries that involve trade unions, factories and brands on an industry-wide basis. Setting higher wages across the entire industry prevents individual factories and brands from negotiating lower prices based on lower wages.<sup>7</sup>

Progress and focused debate on these initiatives require sector- and occupation-specific data and clear definitions of compensation that the global debate on worker pay often lacks. For the FLA, collecting, organizing, reporting, and analyzing actual factory compensation data is the first step.

5 ILO: [http://www.ilo.org/global/about-the-ilo/multimedia/maps-and-charts/WCMS\\_193311/lang-en/index.htm](http://www.ilo.org/global/about-the-ilo/multimedia/maps-and-charts/WCMS_193311/lang-en/index.htm)  
OECD: <http://stats.oecd.org/Index.aspx?queryname=345&querytype=view>

6 OECD, "Scaling Up Living Wages in Global Supply Chains" at [http://oecdinsights.org/2016/04/28/scaling-up-living-wages-in-global-supply-chains/#\\_ftn2](http://oecdinsights.org/2016/04/28/scaling-up-living-wages-in-global-supply-chains/#_ftn2)

7 <https://sourcingjournalonline.com/why-boycotting-brands-wont-help-garment-workers/>

This report describes the FLA's method for due diligence on compensation — a uniform process that enables buyers, suppliers, unions, researchers, and policymakers to collect and compare findings.

The report also presents in detail the compensation data collected by the FLA in 2015. These data are organized to allow for comparisons and analyses of worker compensation within and across countries. Factory compensation figures are presented in this report in charts (or 'wage ladders') alongside legal, statistical, and economic benchmarks to provide local context for the actual compensation figures. The benchmarks used in these charts have been selected according to the criteria developed by the FLA (see Appendix B), and do not represent endorsement of specific compensation levels as goals.

## ABOUT THE FLA FAIR COMPENSATION STRATEGY:

The FLA's Fair Compensation strategy recognizes that raising worker compensation—where the data indicate that compensation is low—is not a compliance problem akin to, for example, locked emergency exits. Like the OECD, IndustriALL, and others, the FLA acknowledges that compensation issues are complex and that there are no finely tuned and universally applicable solutions. To account for this complexity, the multi-year compensation strategy has three phases.

**1. Taking Stock.** This due diligence phase of the strategy helps the FLA and stakeholders fill a critical gap in our knowledge of actual compensation levels. The "Taking Stock" phase includes this report and the FLA's new due diligence tools that allow stakeholders to:

- Zero in on violations of legal pay requirements by suppliers and eliminate them
- Introduce due diligence on fair compensation, going beyond measures of legal compliance
- Use a uniform calculation of compensation across factories and sourcing countries
- Place compensation in the context of relevant benchmarks
- Identify high-risk areas to focus fair compensation strategies

**2. Learning and Planning.** This second phase begins in 2016 with independent research on compensation practices led by the Cornell University School

of Industrial and Labor Relations. This research includes examinations of buyer-supplier responses to rising labor costs, and the roles of sectoral/industrial bargaining and minimum-wage setting.

The FLA and other stakeholders will begin designing an 'implementation roadmap' in 2016 that uses stakeholder experience, new data, risk analysis, and recent research to define the key elements of fair compensation strategies, priority countries, and goals for affiliated companies and stakeholders to reach.

These elements, priorities, and goals will be reflected in the planning that companies undertake individually and together with other stakeholders—civil society organizations and unions, governments, suppliers, brands. This crucial phase of the FLA's strategy challenges stakeholders "to treat the compensation issue as a critical business problem and opportunity that requires the use of some of their considerable resources and talents rather than a social compliance obligation."\*

**3. Making Change.** Implementation of fair compensation strategies is expected to begin in 2018. Progress by FLA-affiliated companies and the FLA as a whole will be evaluated against the goals in the 'implementation roadmap.'

\*Fair Compensation Work Plan adopted by the FLA Board of Directors, Feb. 2015.

## FLA FACTORY ASSESSMENTS

The FLA developed in 2014 and 2015 new tools for the collection, organization, and analysis of compensation data in factories in the supply chains of FLA-affiliated companies. This due diligence – above and beyond compliance with legal compensation requirements – is now part of the FLA's Sustainable Compliance Initiative (SCI), its comprehensive annual factory assessment process that encompasses workers' employment lifecycle from recruitment to termination. The 2015 cycle covered 124 factories in 21 countries and 135,000 workers. (The detailed reports from these assessments are made public on the FLA's website along with the FLA-affiliated company's plans to address noncompliance with the local law and the FLA Workplace Code and Compliance Benchmarks.<sup>8</sup>)

## PAY VIOLATIONS

FLA factory assessment data from the last five years continue to show findings of legal pay violations, such as minimum wage and overtime pay violations, inaccurate pay records, and delayed payments. In 2015, approximately one-third of FLA factory assessments included at least one legal wage-related finding, which is consistent with similar findings in recent ILO Better Work reporting.<sup>9</sup> For example, violations of overtime pay rules affected workers in approximately 20 percent of assessed factories in 2015. Also, despite a

### 2015 ASSESSMENTS

COUNTRY	FACTORIES	WORKERS
China	39	34,621
USA	14	3,334
Vietnam	10	42,975
Turkey	9	2,401
India	8	6,848
Pakistan	7	8,891
Mexico	6	2,275
Thailand	4	2,732
Indonesia	4	4,045
Bangladesh	4	4,791
Sri Lanka	3	5,530
Honduras	3	1,479
Malaysia	2	3,730
Egypt	2	3,205
Dominican Rep.	2	550
Cambodia	2	4,029
Taiwan	1	162
Philippines	1	830
Jordan	1	1,300
Guatemala	1	500
El Salvador	1	189
<b>TOTAL</b>	<b>124</b>	<b>134,417</b>

<sup>8</sup> Assessments are conducted by accredited local third party monitors or the FLA's own regional assessors. FLA factory assessment reports can be found at [www.fairlabor.org/transparency/tracking-charts](http://www.fairlabor.org/transparency/tracking-charts).

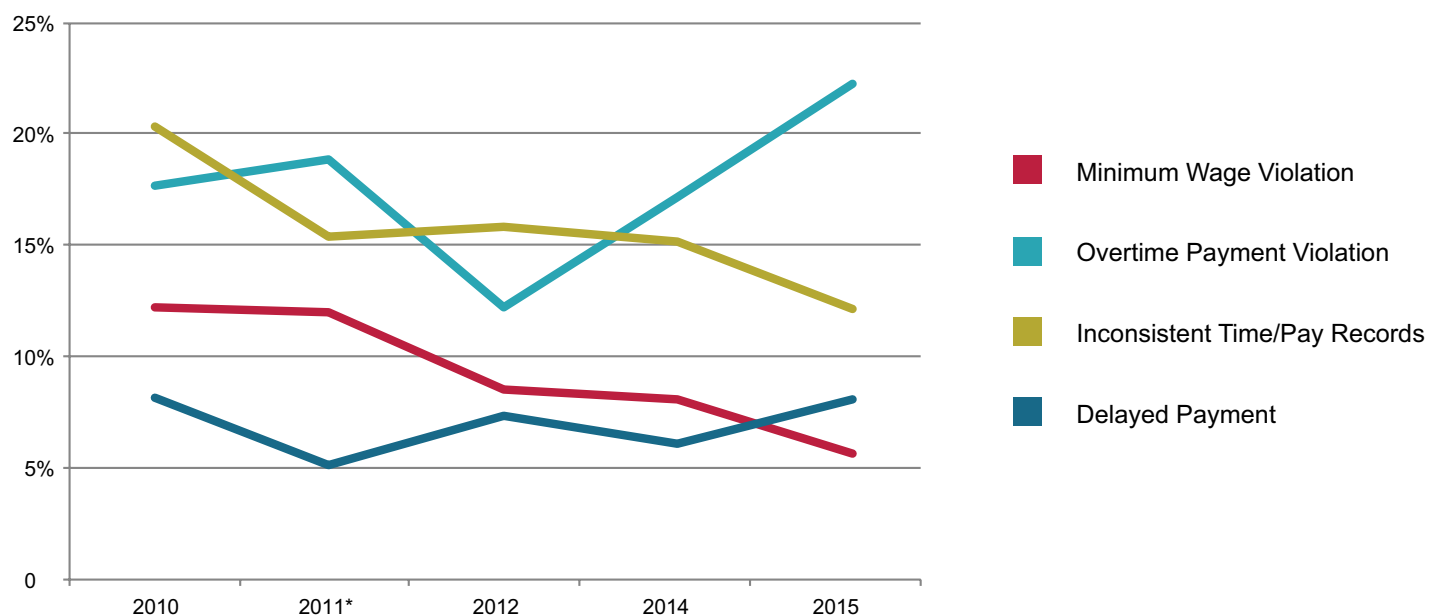
<sup>9</sup> See for example, [http://betterwork.org/global/wp-content/uploads/2016/04/Thematic-report-3rd-edition\\_Compensation.pdf](http://betterwork.org/global/wp-content/uploads/2016/04/Thematic-report-3rd-edition_Compensation.pdf), <http://betterwork.org/global/wp-content/uploads/Session-3-How-%E2%80%98fair%E2%80%99-are-wage-practices-along-the-supply-chain.pdf>, and <http://betterwork.org/global/wp-content/uploads/Global-Synthesis-Report-final.pdf>.

measured decline in recent years of the percentage of minimum wage violations found by the FLA, assessors in 2015 found minimum wage violations at six percent of the suppliers they visited. No workers in FLA affiliates' supply chains should be paid less than they are owed, and the persistence of such legal pay violations undermines progress towards fair compensation. FLA affiliates are required to take prompt and effective action to see that workers are paid what they are owed and ensure future compliance.<sup>10</sup>

Pay violations described above are not an exhaustive list of non-compliances identified by FLA during factory assessments. Non-payment of benefits is another recurrent issue. For example, assessments in China illustrate an industry-wide problem — routine and widespread deficiencies in social insurance and housing provident fund coverage:<sup>11</sup>

- 69 percent of 39 FLA assessments in China in 2015 found workers not being provided with one or more of the five types of social insurance (pension, unemployment, medical, work accident, and maternity)
- 79 percent of the assessments found that social insurance benefits were calculated using an incorrect contribution base, such as the minimum wage as opposed to workers' actual earnings
- All assessments but one found insufficient or no contributions by the employer into the Housing Provident Fund

**FIGURE 1: Pay violations by type, 2010 – 2015 (SCI assessment data)<sup>12</sup>**



<sup>10</sup> To this end, the FLA will release separately a recommendations paper that includes brief case studies on remediation of pay violations at the factory and farm levels, and strategies that tackle pay issues proactively: 1. worker/union engagement and collective bargaining, 2. strong due diligence and training to reduce the probability of pay violations, and 3. brand sourcing decisions that reinforce the commitment to end pay violations.

<sup>11</sup> FLA's guidance for stakeholders on social insurance in China is at <http://www.fairlabor.org/sites/default/files/documents/reports/may-2015-housing-provident-fund-in-china.pdf>. Also see the FLA's 2015 report on remediation at Pou Chen at <http://www.fairlabor.org/report/social-benefit-verification-factories-operated-pou-chen>

<sup>12</sup> The FLA conducted 124 assessments in 2015, 129 in 2014, 28 in 2013, 83 in 2012, 60 in 2011, and 149 in 2010. The 2013 cycle included too few assessments (28) and is therefore excluded from this analysis. Each cycle covers approximately 20 – 25 sourcing countries.



## ASSESSING ACTUAL COMPENSATION

Many suppliers, brands, and governments have focused exclusively on assessing whether workers have been paid according to legal requirements, without also assessing whether meeting legal minimums results in compensation high enough to support workers and their families. Unions, labor rights organizations, a growing numbers of companies — and now the German and Dutch governments — have documented the inadequacy of minimum wages in many key sourcing countries and, as a result, have issued calls for higher pay. The argument for higher pay is also backed by a growing body of research and experience — some specific to light manufacturing, some from other sectors—that makes the connection between higher compensation and increased productivity, and decreases in worker turnover.<sup>13</sup>

Moving beyond primarily legal compliance requires assessment of actual compensation to workers. These assessments require that stakeholders establish a uniform, global measure of compensation that defines which elements of pay belong in a calculation of compensation. For example, the FLA Code of Conduct defines compensation as income earned during contracted (regular) working hours so overtime earnings do not count.<sup>14</sup> Some in-kind benefits, however, do count, as they help off-set workers' living expenses.

The lack of a uniform method among stakeholders for collecting and organizing actual compensation data has meant a paucity of comparable figures, and the debate over solutions has suffered for it. Thomas Piketty, a renowned economist and researcher on wealth and income inequality writes in his *Capital in the Twenty-first Century* that:

Without precisely defined sources, methods, and concepts, it is possible to see everything and its opposite. Some people believe that inequality is always increasing and that the world is by definition always becoming more unjust. Others believe that inequality is naturally decreasing, or that harmony comes about automatically, and that in any case nothing should be done that might risk disturbing this happy equilibrium. Given this dialogue of the deaf, there is a role for research that is at least systematic and methodical if not fully scientific. Social scientific research is and always will be tentative and imperfect... [b]ut by patiently searching for facts and patterns and calmly analyzing the economic, social, and political mechanisms that might explain them, it can inform democratic debate and focus attention on the right questions. It can help to redefine the terms of debate, unmask certain preconceived or fraudulent notions, and subject all positions to constant critical scrutiny.<sup>15</sup>

The definitions and methodological choices made to define sources, methods, and concepts are sometimes difficult, but are necessary to organize and analyze data in as uniform a manner possible across the many occupations, suppliers, sectors, and countries that make up global supply chains.

<sup>13</sup> See for example <https://piie.com/blogs/realtime-economic-issues-watch/higher-wages-low-income-workers-lead-higher-productivity>, <https://hbr.org/2015/04/do-ceos-really-have-the-power-to-raise-wages>, <http://oecdinsights.org/2016/04/28/scaling-up-living-wages-in-global-supply-chains/>.

<sup>14</sup> According to FLA Workplace Code of Conduct, the regular work week shall not exceed 48 hours. The FLA 'Guide for Collection of Compensation Data' describes in detail the FLA method. It is available at [http://www.fairlabor.org/sites/default/files/documents/reports/fla\\_data\\_collection\\_guide\\_january\\_2016.pdf](http://www.fairlabor.org/sites/default/files/documents/reports/fla_data_collection_guide_january_2016.pdf)

<sup>15</sup> Piketty, *Capital in the Twenty-first Century* (2013).

The FLA's definition of compensation is:

**COMPENSATION = BASIC CONTRACTED WAGE<sup>16</sup> + CASH BENEFITS + IN-KIND BENEFITS  
- MANDATORY TAXES AND LEGAL DEDUCTIONS AND TAXES<sup>17</sup>**

This definition is consistent with the standard adopted by Social Accountability International, Forest Stewardship Council, GoodWeave, Fairtrade International, UTZ Certified, and others.

This compensation calculation is meant to be used globally. Because compensation systems vary by factory and by country, the FLA designed and field-tested a template that organizes the many payments made to workers into standard categories and types. This global template helps ensure that factory staff and assessors are capturing the right data and organizing it in a consistent way.

Along with a technical guide that focuses on the steps to be taken at the factory level to collect and organize compensation data from payroll and workers, the data collection template was developed by the FLA together with its technical working group and reviewed with Martha and Richard Anker, globally recognized experts on compensation and 'living wage' calculations.<sup>18</sup>

<sup>16</sup> The basic contracted wage is the wage earned during basic contractual working hours, namely excluding overtime.

<sup>17</sup> The FLA calculation for piece-rate workers includes only incentive pay earned in regular working hours: Compensation = Basic contracted wage + [Monthly] Productivity bonus in Incentives + Cash benefits + In-kind benefits – Legal deductions and Taxes.

<sup>18</sup> The FLA's Fair Compensation Technical Working Group includes representatives from the FLA's three constituencies—companies (three representatives), civil society organizations (two representatives), and universities (two representatives)—as well as three leading academics on supply chain labor and compensation issues. The Group is chaired by an FLA staff member.



# FLA COMPENSATION CHARTS

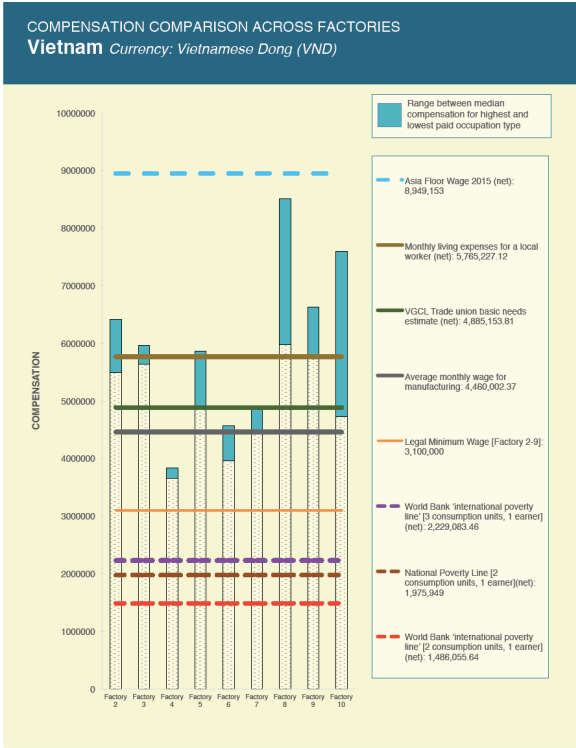
The worker compensation figures in this report are presented alongside various benchmarks such as legal minimum wages, national and international poverty lines, and cost-of-living<sup>19</sup> figures including living wage estimates. These benchmarks fall into three groups:

- 1. Legal benchmarks such as the applicable minimum wage
- 2. Income benchmarks, which include prevailing wages / industry averages to provide a sense of the industry context, and average income figures to provide broader economic context
- 3. Cost-of-living / expenditure figures, including poverty lines and living wage figures which tell us about the extent to which compensation levels meet basic needs

These benchmarks and cost-of-living figures are used because they provide important context for actual compensation data but do not represent endorsement of specific compensation levels as goals. The benchmarks have been chosen to reflect the diversity of measures and judgments of stakeholders including governments, employers, labor rights organizations, unions, and multilateral institutions.

Compensation figures for each factory assessed and the benchmarks for that country – or wage region, for countries in which minimum wages vary by region – are presented together in a

## Factory-level median compensation by occupation (left) and comparison of factories within a country (right)



<sup>19</sup> Cost-of-living/expenditure figures are not, strictly speaking, 'benchmarks' in the same sense as minimum wage and industry averages, for example. For the sake of simplicity, 'benchmark' is used here to refer to all such figures employed in the charts.

compensation chart (or ‘wage ladder’). In the sample chart (at left, on p. 11), vertical bars show the median total compensation figures for workers in each of the four largest occupations.<sup>20</sup> They also break down compensation into its component elements: basic contracted wage, cash benefits, in-kind benefits, and — in some cases — incentive pay. Horizontal lines represent the benchmarks appropriate to the factory’s country (or wage region). Although FLA’s compensation definition is a net figure (after taxes and legal deductions), the charts use gross figures since most benchmarks are based on pre-tax compensation. We have included both gross and net figures in the charts for reference and comparison.

The charts are grouped in Appendix A by country, with each country group including technical notes on the benchmarks used, including the source and date, methodology where available, and all adjustments made by the FLA. This appendix also compares compensation ranges for workers between the lowest and highest paid occupations for all factories in a country or wage region in which the FLA conducted three or more assessments (sample chart on right, p. 11).

An important caveat is that the methods used to create the cost-of-living figures vary among the research institutes, governments, unions, employer organizations, labor rights organizations, and others who undertake such efforts. Some methods are very scientific, some are not. Some are built or chosen with close attention to the political and macro-economic pressures at work in the sector, country, or region, and some are not. Some cost-of-living benchmarks are calculated based on family sizes or numbers of earners. Most present gross figures because much of the global debate is carried on using gross figures, but a few present net figures.<sup>21</sup> Finally, macro-economic benchmarks such as average income or prevailing manufacturing wages may combine compensation data for workers in very different occupations and wage regions.

For these reasons, the FLA consulted widely with unions and civil society organizations, buyers, suppliers, and auditors in 2015 and 2016 in developing guidelines for benchmarking choices, and in making the selections and adjustments of benchmarks for each of the 21 countries in which we conducted assessments. The FLA’s guidelines and benchmarks are included in Appendix B to this report.

The FLA used the following types of benchmarks:

- Legal minimum wages<sup>22</sup>
- Living wage estimates
- National poverty lines and cost of basic needs figures
- International poverty thresholds (World Bank)<sup>23</sup>
- Industry/Sector Wage Comparator (e.g. manufacturing sector average wage)
- National relative poverty lines
- Union wage demands

<sup>20</sup> Where available, the charts present figures beneath each bar indicating the total percentage of workers in each occupation among the workforce.

<sup>21</sup> A second reason for gross figures over net is that most statutory deductions are minimal in the vast majority of countries covered in this report.

<sup>22</sup> In multiple countries including China, El Salvador, Guatemala, Honduras, Mexico, Thailand, and Turkey, legal minimum wages had changed over the period of time covered by the compensation data collected. For the compensation charts of factories affected by such changes, the lower legal minimum wage figure is shown. Both legal minimum wages are included in the benchmark table.

<sup>23</sup> Legal minimum wages in Bangladesh and Sri Lanka fell close to both the World Bank’s ‘extreme’ and ‘international’ poverty levels so both benchmarks are shown in Bangladesh and Sri Lanka supplier charts.



The FLA has made adjustments to some benchmarks to make them more comparable. These adjustments are noted in the box below and in greater detail in the charts and benchmark notes.

Some of the benchmark methodologies used around the world do not lend themselves to adjustments — living wage estimates, for example, and union wage demands. These benchmarks are valuable in showing how civil society perceptions relate to actual compensation, so we do not adjust these figures. To help the reader calibrate each of these benchmarks with other figures, this report explains in the charts and accompanying notes how a benchmark’s assumptions about household size differ from the FLA definition of a ‘household.’

To avoid disclosure of information that could give rise to anti-trust concerns, these charts necessarily appear without identifying information such as factory or buyer name. Even so, approximately 15 of the 124 charts can still be connected to the factories they represent because they are included in public disclosure lists and/or located in countries (or wage regions) where the FLA conducted very few assessments. This possibility of factory identification presents an increased anti-trust risk, so specific wage levels for these factories have been obscured by a horizontal bar out of an abundance of caution to avoid the potential disclosure of information that may be competitively sensitive.

## OVERVIEW OF ADJUSTMENTS TO BENCHMARKS

The following adjustments have been made to benchmarks included in the compensation charts:

1. **Conversion to monthly equivalents:** On the basis of the legal working week in the case of wage benchmarks or an average number of days per month (365 days / 12 months) in the case of cost-of-living or poverty figures.
2. **Adjustment for inflation:** Except for legal minimum wages, benchmarks from previous years are adjusted for inflation to their 2015 value based on consumer price index (CPI) data from International Monetary Fund’s World Economic Outlook database (IMF WEO).
3. **Extrapolation of basic needs for households:** Poverty line benchmarks representing ‘economic needs’ for individuals are extrapolated to reflect household needs. Per capita figures are multiplied by two to meet the FLA’s ‘household’ definition of a single earner with two dependents.<sup>24</sup>

Benchmarks used in Fair Compensation analysis are drawn from National Statistics Agencies and third party sources. These are referenced and explained based on publically available materials. However, we are unable to validate or make claims on credibility of the data or the collection methods used. Any additional known limitations regarding specific benchmarks are indicated clearly in the benchmark notes that accompany each country/chart.

<sup>24</sup> The FLA definition of compensation excludes overtime pay, taxes, and other legal deductions, and the FLA Code of Conduct glossary states that compensation must be sufficient to allow “a worker and two dependents” to meet their basic needs with some discretionary income remaining. Following this definition—and the convention of counting children/dependents at half of the adult figure—the FLA doubles per capita benchmarks, while acknowledging that typical household size varies by country and region.

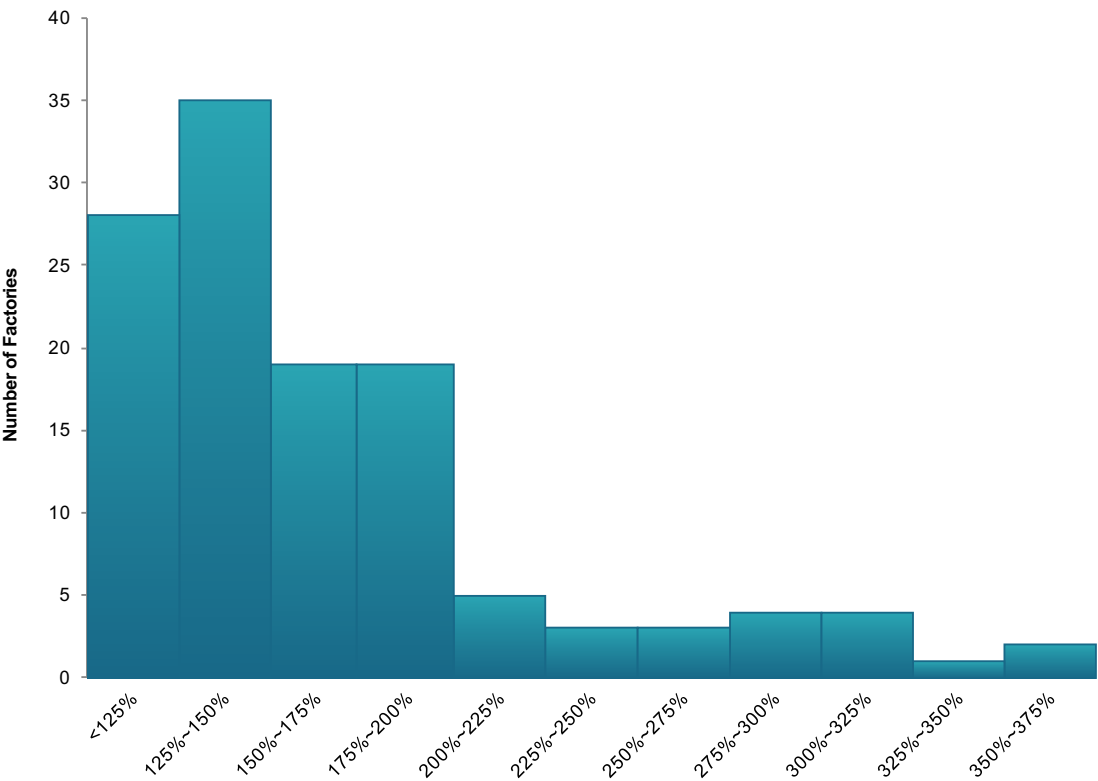
# ROLE OF THE MINIMUM WAGE

The FLA’s 2015 data collection found that most factories under assessment had established wages near the legal minimum.

The FLA did not collect data simply among the lowest paid workers in any given factory, but rather collected data from a cross-section of workers in each factory’s four most common occupations. Still, the resulting median compensation figure in half of of the factories under assessment in 2015 was no more than 1.5 times the legal minimum. Median compensation in the other half of factories assessed was more variable.<sup>25</sup> This distribution of compensation around the applicable minimum wage (Figure 2) seems to confirm the fundamental role that minimum-wage setting plays in determining compensation for many workers in light manufacturing.

Identifying in which countries wages are most tied to the legal minimum and where the purchasing power of the minimum wage is weakest can help determine where sector-wide approaches such as industry bargaining on wages may have the greatest impact on workers and their families. To help identify these countries, the graphs on pages 15 and 16 plot compensation by country against applicable legal minimum wages (Figure 3), and against World Bank poverty benchmarks (Figure 4).<sup>26</sup>

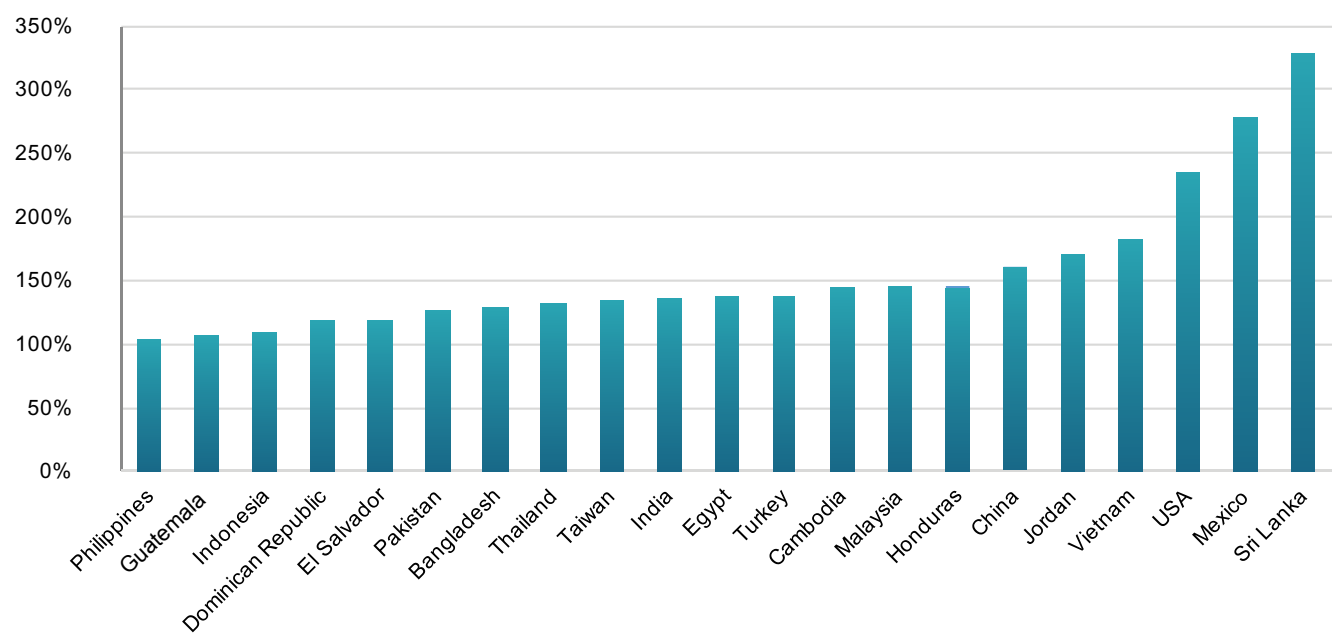
**FIGURE 2:** Distribution of median factory compensation as a percentage of the applicable minimum wage



25 All but one outlier, a Sri Lankan factory paying 4.37 times of the applicable legal minimum wage, fall between 1.5 and 3.75 times the legal minimum. Note that Figure 4 on page on page 16 shows that Sri Lanka’s legal minimum falls below the World Bank poverty line for a two-person household.

26 Several of these countries including for example China, India, and Mexico, have multiple minimum wage regions. Factory compensation average are indexed to the applicable (regional) minimum wage then combined with other data from the same country.

**FIGURE 3:** Median compensation as a percentage of the applicable minimum wage<sup>27</sup>



As in the factory analysis in Figure 2, the country analysis in Figure 3 shows a similar clustering around the minimum wage, with median compensation no more than 1.5 times the minimum wage in two-thirds of the countries in which data were collected.

This clustering matters chiefly where the purchasing power of the minimum wage is weakest, where the minimum wage is least likely to meet basic needs. As a standard benchmark for basic needs, World Bank poverty lines are compared in the graph on page 16 with the level of the minimum wage and the average factory compensation from FLA data — all adjusted for purchasing power parity to allow for comparisons across countries.<sup>28</sup>

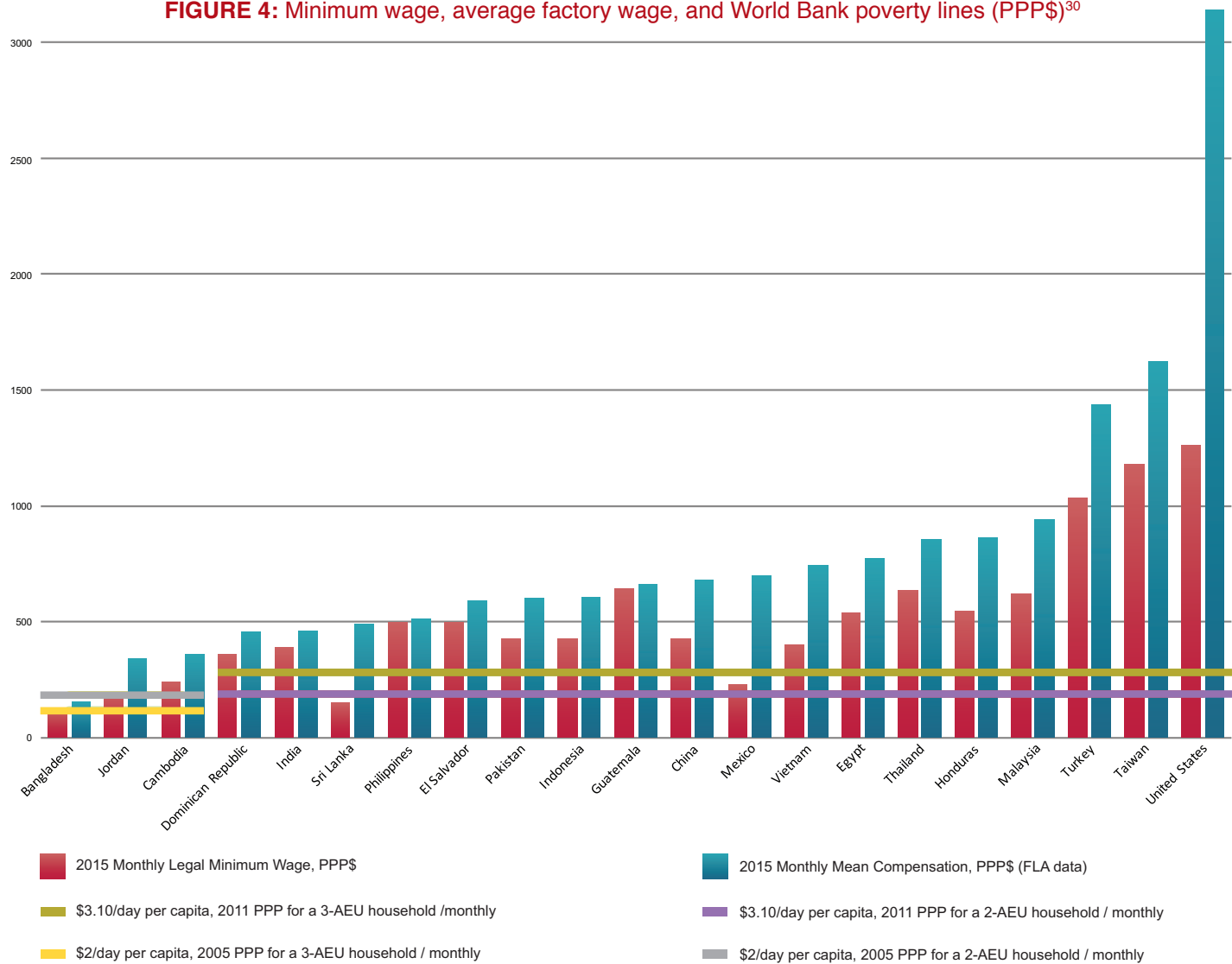
Figure 4 brings together three critical measures of compensation, showing the relative purchasing power of minimum wages<sup>29</sup> (red) and average compensation (blue) among the 21 countries in this report against World Bank poverty lines. The countries are ordered by the value of their monthly average compensation in PPP\$, with the lowest value — Bangladesh — on the left.

27 Egypt lacks a private-sector minimum wage applicable to light manufacturing and the public sector minimum (1,200 EGP) is used here instead.

28 World Bank figures (2011 PPP\$ 3.10) are for 2- and 3-unit households, and all figures are PPP\$, a World Bank standard that allows the purchasing power of incomes to be compared across countries and currencies by representing “the number of units of a country’s currency required to buy the same amounts of goods and services in the domestic market as U.S. dollar would buy in the United States.” <http://data.worldbank.org/indicator/PA.NUS.PPP>

29 Where there were several potential regional minimum wage rates to choose from, the tool uses a single rate considered to be the best fit for a typical FLA supplier in each country. Regionally, this is determined by 1) location of FLA-affiliates’ suppliers and 2) where in the country most production is known to occur: Guangdong B was used for China (including the city of Dongguan where several FLA factories are located). Central Java is used for Indonesia and Karnataka (Bangalore) for India due to the concentration of factories there. If wage stipulations depend on skill, the analysis uses the lower skill rate (e.g. Sri Lanka, India).

FIGURE 4: Minimum wage, average factory wage, and World Bank poverty lines (PPP\$)<sup>30</sup>



The figure above shows that both the legal minimum wage (red) and the purchasing power of average monthly compensation (blue) fall below World Bank poverty lines in Bangladesh. Compensation in Bangladesh (PPP\$ 154) is less than half the compensation level in the next country on the chart — Jordan, at \$341 — and significantly below all those that follow, such as Cambodia (\$360), Dominican Republic (\$455), India (\$461), Sri Lanka (\$491), the Philippines (\$512). The table on page 17 presents the data underlying Figure 4, and pinpoints the ratios of average compensation to the applicable World Bank poverty lines, and average compensation to the applicable minimum wages.

30 For most countries in this graph, figures are adjusted for comparability using the 2014 values of the World Bank's 2011 purchasing power parity (PPP) conversion factor. The World Bank suggests that for a small set of countries including Bangladesh, Cambodia and Jordan, their 'extrapolated' 2005 PPP conversion factor (adjusted for 2014 values) is more accurate as a measure of poverty and local living costs than the 2011 PPP. Following the World Bank's suggestion for these countries, this chart also shows PPP\$2/day as the relevant poverty threshold, rather than the \$3.10/day threshold recommended for other countries. For more information, see pages 30-31 of the World Bank Group/IMF Global Monitoring Report 2015/16 Development Goals in an Era of Demographic Change, at <http://pubdocs.worldbank.org/pubdocs/publicdoc/2015/10/503001444058224597/Global-Monitoring-Report-2015.pdf>. For the specific data used to create this figure, see Table 1 on page 17.



Average compensation compared to the World Bank poverty line for a family with the equivalent of three adults (Column 4) reinforces the analysis above. Purchasing power of compensation in factories assessed in Bangladesh is only 85 percent of the World Bank poverty line. Purchasing power is less than twice the World Bank poverty line in Cambodia, the Dominican Republic, India, Sri Lanka, the Philippines, and in Jordan (for migrant workers).

The purchasing power of compensation is around 2.5 times the poverty line for two giants of apparel and footwear production — China (2.4) and Vietnam (2.6). Finally, average compensation is highest among the higher-income countries — Turkey, Taiwan, and the United States.

**TABLE 1: Minimum wage, average factory compensation, and World Bank poverty lines, in PPP\$**

<b>COUNTRY</b>	<b>Average Compensation, 2015 Factories (PPP\$)</b>	<b>Legal Minimum Wage, 2015 (PPP\$)</b>	<b>Average Compensation/ Poverty Line (3 Adult Equiv.)</b>	<b>Average Compensation/ Legal Minimum Wage</b>
<b>Bangladesh</b>	\$154	\$118	0.85	1.31
<b>Jordan</b>	\$341	\$186	1.87	1.83
<b>Cambodia</b>	\$360	\$237	1.97	1.52
<b>Dominican Rep.</b>	\$455	\$358	1.61	1.27
<b>India</b>	\$461	\$387	1.63	1.19
<b>Sri Lanka</b>	\$491	\$150	1.74	3.27
<b>Philippines</b>	\$512	\$497	1.81	1.03
<b>El Salvador</b>	\$594	\$500	2.10	1.19
<b>Pakistan</b>	\$599	\$426	2.12	1.41
<b>Indonesia</b>	\$606	\$428	2.14	1.42
<b>Guatemala</b>	\$658	\$643	2.33	1.02
<b>China</b>	\$680	\$428	2.40	1.59
<b>Mexico</b>	\$699	\$231	2.47	3.03
<b>Vietnam</b>	\$744	\$402	2.63	1.85
<b>Egypt</b>	\$774	\$539	2.73	1.44
<b>Thailand</b>	\$854	\$634	3.02	1.35
<b>Honduras</b>	\$866	\$547	3.06	1.58
<b>Malaysia</b>	\$941	\$624	3.32	1.51
<b>Turkey</b>	\$1,437	\$1,033	5.08	1.39
<b>Taiwan</b>	\$1,620	\$1,181	5.73	1.37
<b>United States</b>	\$3,141	\$1,262	11.10	2.49

The right-most column in the table shows the relationship between the purchasing power of average compensation and the applicable minimum wage. The ratio is close to one where the purchasing power of average compensation and minimum wage are closest. This indicates the importance and power of minimum wage-setting in determining the value of actual compensation for workers.

Five countries in which the purchasing power of average compensation is weakest exhibit a relatively strong correlation between minimum wages and average compensation: Bangladesh (1.31), Cambodia (1.52), the Dominican Republic (1.27), India (1.19), and the Philippines (1.03). In these countries, this correlation represents an opportunity for stakeholders to have the greatest impact for workers by supporting strong minimum wage-setting mechanisms or engaging in sectoral bargaining.

In order to introduce risk measures to the ‘need’ analysis above, the FLA has added four factors — recent increases in the minimum wage, pay violations found by the FLA, Gross National Income (GNI), and worker empowerment measures (see Table 2). FLA-defined scores on the worker-empowerment variable are used here as proxies for the institutions and dynamics such as collective bargaining that generally improve each country’s opportunities to make progress on compensation:

1. Effective factory-level compensation in 2015 expressed in PPP\$ (25% weight)
2. Purchasing power of the 2015 minimum wage in PPP\$ (25%)
3. Real increases to minimum wage between January 2014 and January 2016 (10%)
4. Pay violations found during FLA 2015 factory assessments (15%)
5. Gross National Income<sup>31</sup> (10%)
6. Worker empowerment and voice, including ITUC Global Rights Index<sup>32</sup> (15%)

The first two measures — average factory compensation from the FLA SCI data, and applicable minimum wages (both in PPP\$) — are weighted most heavily as they are the leading risk indicators of low compensation.

As in the ‘need’ analysis based solely on compensation measures (Table 1), Bangladesh tops the list. With measures of union freedom, pay violations, and minimum wage increases added into the analysis, countries like Sri Lanka, Mexico, and Egypt can be seen to move up the risk table, indicating a higher risk; at the same time, the risk and need analyses produce very similar results in the top six countries in both tables, confirming them as priority countries for efforts to ensure that workers are earning fair compensation.

31 All data drawn from the World Bank World Development Indicator (WDI) 2015 (for the year 2014), except data for Taiwan drawn from the World Bank’s Doing Business report (2013). Values expressed in current US\$.

32 International Trade Union Confederation; <http://www.ituc-csi.org/ituc-global-rights-index-2015>

These rankings below characterize relative risk between the 21 countries in the report. A lower position in the rankings indicates lower risk as compared with other countries in the report, not absolute risk or lack of risk.

Both the ‘need’ and ‘risk’ analyses are based in part on baseline compensation data from a limited number of factories assessed by the FLA in 2015. As data collection by the FLA and other stakeholders produces more factory-level information, the depth and accuracy of these analyses will improve. In 2016, the geographic reach of the FLA’s data will expand with the addition of SCI assessments and compensation data from Brazil, Myanmar, the Republic of Georgia, Haiti, Italy, and Tunisia.

**TABLE 2: Compensation Risk Ranking of 2015 Countries Receiving Factory Assessments**

COUNTRY	RANKING	Effective Factory Wages (FLA 2015)	Purchasing Power of Minimum Wage	Increase to Minimum Wage Since Jan. 2014	Pay Violations (FLA 2015)	Gross National Income	Worker Empower- ment
Bangladesh	90	25.00	25.00	9.50	6.00	9.50	15.00
Sri Lanka	75	18.75	23.75	8.50	9.75	6.00	8.00
Jordan	73	23.75	22.50	6.00	12.75	4.00	4.00
Cambodia	69	22.50	20.00	0	6.00	10.00	10.00
India	67	20.00	17.50	1.50	4.50	8.50	15.00
Dominican Rep.	67	21.25	18.75	4.00	12.75	3.00	7.00
Pakistan	60	15.00	15.00	2.00	9.00	9.00	10.00
Egypt	54	7.50	8.75	10.00	6.00	7.00	15.00
Philippines	53	17.50	11.25	9.00	0	5.50	10.00
Guatemala	53	12.50	3.75	7.50	12.75	6.50	10.00
Mexico	52	10.00	21.25	5.00	0	2.00	14.00
China	52	11.25	13.75	3.50	10.50	2.50	10.00
Indonesia	50	13.75	12.50	2.50	11.25	5.00	5.00
El Salvador	48	16.25	10.00	4.50	0	4.50	13.00
Vietnam	48	8.75	16.25	1.00	3.75	8.00	10.00
Honduras	42	5.00	7.50	3.00	5.25	7.50	14.00
Thailand	41	6.25	5.00	6.50	6.00	3.5	14.00
Malaysia	41	3.75	6.25	8.00	12.75	1.00	9.00
Turkey	34	2.50	2.50	0.50	12.00	1.50	15.00
Taiwan	22	1.25	1.25	5.50	0	0.50	13.00
United States	21	0	0	7.00	0	0	14.00

## CONCLUSION

The data and analysis presented in this report are intended to help inform a contentious debate over fair compensation that has bedeviled stakeholders for years.

In presenting compensation figures that can be compared across factories and countries, and devising tools to rank risk and opportunity for progress on fair compensation, the FLA is publishing verified data that are often missing in global discussions over supply chain wages. As noted in the quote from Thomas Piketty above, quantitative research “can inform democratic debate and focus attention on the right questions. It can help to redefine the terms of debate, unmask certain preconceived or fraudulent notions, and subject all positions to constant critical scrutiny.”

The first hurdle to fair compensation for workers is to prevent or remediate legal pay violations, a persistent problem found in approximately one-third of suppliers assessed by the FLA over the past five years.<sup>33</sup> Beyond legal compliance, the next (and just as critical) step toward fair compensation is to ensure that the purchasing power of workers’ legal wages is more than sufficient to meet their basic needs.

The baseline compensation data presented here show that the purchasing power of compensation is weakest in Bangladesh, followed by Jordan (for migrant workers), Cambodia, the Dominican Republic, India, and Sri Lanka. When measures of worker voice, pay violations, and recent changes in minimum wage levels are added to the analysis, a slightly reordered list of high-priority countries emerges, but Bangladesh remains atop the list.

The FLA and other stakeholders will use the data in this report to drive engagement with approaches like the following, for making progress towards fair compensation:

**At the factory level**, the incidence of pay violations suggests that there is significant room for efforts involving workers, unions, brands, and suppliers to find and remediate pay violations, and to create systems that help ensure that workers are paid what the law requires. Pay systems that are accurate, transparent, and clearly communicated are a core requirement for FLA-affiliated companies.

**At the national level**, opportunities for pursuing fair compensation through advocacy of higher legal minimum wages appear in countries where the data indicate that the purchasing power of the current legal minimum falls below or near the World Bank poverty line. Active engagement between national policy-makers, unions, brands, and suppliers to advance fair and inclusive minimum-wage setting and to support the building of effective frameworks for industry bargaining is a component of the FLA’s Fair Compensation strategy.

**At the brand level**, where the data suggest that compensation does not meet workers’ basic needs and provide discretionary income, companies will need to investigate appropriate strategies for

<sup>33</sup> As noted at the top of this report, the FLA will provide guidance on remediating and preventing pay violations for stakeholders in 2016, and will track progress in its public reporting.



adjusting their sourcing model to account for the cost of fair compensation. These adjustments may be related to improved productivity or efficiency, may be reflected in the prices paid by brands, or may derive from emerging research on new strategies for fair compensation. Just as some FLA-affiliated companies have pledged to “incorporate locally negotiated wage increases into our FOB prices”<sup>34</sup> in support of workers’ collective bargaining efforts, companies may follow similar strategies to enact their commitment to fair compensation.

The FLA is working with Cornell’s School of Industrial and Labor Relations to explore how changes in global purchasing and production practices — including, for example, changes in companies’ reliance on overtime or in prices agreed between suppliers and buyers — can help make progress towards fair compensation.<sup>35</sup>

The FLA’s approach on this complex issue — beginning with the FLA’s investment in compensation due diligence, followed by goal-setting, pilots, and implementation — is too slow for some stakeholders and too fast for others. Getting agreement among stakeholders on the right questions and goals, exploring together approaches to fair compensation, and holding one another accountable for progress is the essence of multi-stakeholder collaboration.

This work holds the promise of wider and more focused engagement that leads to action and measurable progress by buyers, suppliers, unions, civil society organizations, policymakers, and universities to ensure that workers are paid fair compensation.

## NEXT STEPS:

**1. GUIDANCE ON LEGAL PAY VIOLATIONS** – The FLA will provide guidance on remediating and preventing pay violations, and will continue to track remediation efforts in its public reporting of factory monitoring visits.

**2. DATA ANALYSIS** -- The FLA will use the data underlying this report to conduct a deeper analysis that examines the effects of overtime, collective bargaining and worker voice, and addressing gender discrimination in pay.

**3. CONTINUED DATA COLLECTION** – This year and beyond, the FLA and affiliated companies will collect additional wage data to build on the data set in this report and enable the FLA to sharpen the analysis presented here. The FLA’s 2016 SCI cycle has begun and this new data, including new pay violations data and updated benchmarks, will be published in the 2017 version of this report.

**4. IMPLEMENTATION ROADMAP** – For the FLA and other stakeholders, next steps include the drafting of a guidance document proposing elements of fair compensation strategies, such as changes in purchasing practices, multi-stakeholder collective action at the sectoral or national level, and factory-level due diligence and planning. The FLA roadmap will not name specific compensation figures that affiliated companies have to meet, but will outline goals that FLA-affiliated companies and stakeholders are expected to work into their plans.

**5. COMPANY PLANS** – The FLA, affiliated companies, and others will use the implementation roadmap — and their own considerable experience with costing, sourcing, collective bargaining, brand/supplier collaboration, and policy advocacy — to draw up progressive and practical compensation plans. Implementation is planned in 2018.

<sup>34</sup> [http://www.fairlabor.org/sites/default/files/letter\\_from\\_global\\_brands\\_on\\_wages\\_in\\_cambodia\\_nov\\_2014.pdf](http://www.fairlabor.org/sites/default/files/letter_from_global_brands_on_wages_in_cambodia_nov_2014.pdf)

<sup>35</sup> See for example, Klaus Hohenegger and Doug Miller ‘Labour Minute Costing: a tool for establishing living wage floors in garment factories’ at [http://www.fairwear.org/ul/cms/fck-uploaded/documents/fwfpublications\\_reports/FWF-LabourMinuteCosting.pdf](http://www.fairwear.org/ul/cms/fck-uploaded/documents/fwfpublications_reports/FWF-LabourMinuteCosting.pdf). Also see for example, [http://www.fairlabor.org/sites/default/files/letter\\_from\\_global\\_brands\\_on\\_wages\\_in\\_cambodia\\_nov\\_2014.pdf](http://www.fairlabor.org/sites/default/files/letter_from_global_brands_on_wages_in_cambodia_nov_2014.pdf), and [http://www.fairlabor.org/sites/default/files/documents/reports/letter\\_on\\_minimum\\_wage\\_exemptions\\_in\\_myanmar\\_july\\_2015.pdf](http://www.fairlabor.org/sites/default/files/documents/reports/letter_on_minimum_wage_exemptions_in_myanmar_july_2015.pdf)